

Message Text

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ACTION TRSE-00

INFO OCT-01 EUR-12 ISO-00 SP-02 AID-05 EB-07 NSC-05

CIEP-01 SS-15 STR-01 OMB-01 CEA-01 CIAE-00 COME-00

FRB-03 INR-07 NSAE-00 XMB-02 OPIC-03 LAB-04 SIL-01

L-02 H-01 PA-01 PRS-01 USIA-06 AF-06 NEA-09 ARA-06

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FM AMEMBASSY PARIS

TO SECSTATE WASHDC PRIORITY 6609

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PASS TREASURY

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TAGS: EFIN, FR

SUBJECT: INTERNATIONAL BANK LENDING -- FRANCE

REF: STATE 22709; PARIS 03595

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FOLLOWING SUMMARY OF INTERVIEW WITH JEAN RICHARD, IN CHARGE OF INTERNATIONAL OPERATIONS FOR SOCIETE GENERALE (THIRD-LARGEST FRENCH BANK), RE PROSPECTS FOR INTERNATIONAL LENDING IN 1975.

1. SOCIETE GENERALE HAS ALWAYS HAD PRUDENT ATTITUDE TOWARDS POSSIBILITIES FOR INTERNATIONAL LENDING BY INTER-MEDIATION. IN LINE WITH THIS POLICY, THEY HAVE TAKEN CARE TO BE SURE THAT "SUBSTANTIAL PORTION" OF THEIR OUTSTANDING LOANS WAS MATCHED BY BORROWINGS OF SIMILAR MATURITY. THUS, WHEN EXTENDING FIVE-YEAR LOAN TO FOREIGN CUSTOMER, THEY HAVE SOUGHT FINANCING FOR FIVE-YEAR TERM OR AT LEAST THREE OR FOUR YEARS. LAST SUMMER

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WHEN SOME FOREIGN BANKS (E.G., HERSTATT) BEGAN TO

ENCOUNTER DIFFICULTIES AS REGARDS THEIR OPERATIONS IN EURO-CURRENCY MARKET, AND IN LINE WITH WARNINGS FROM BANK OF FRANCE AND OTHER EUROPEAN CENTRAL BANKS, SOCIETE GENERALE REDUCED VERY MARKEDLY ITS VOLUME OF NEW OPERATIONS. THEY EXPECT TO CONTINUE THIS POLICY OF RETRENCHMENT IN 1975 UNLESS THERE IS MARKED CHANGE FOR THE BETTER IN INTERNATIONAL FINANCIAL CLIMATE. IN EFFECT, THEY WILL LIMIT THEMSELVES TO ACCOMMODATING THEIR GOOD CUSTOMERS AND WILL NOT BE MUCH ATTRACTED BY NEW BUSINESS, EVEN WHERE BORROWERS ENJOY PRIME RISK STATUS. FOR EXAMPLE, A COUPLE OF YEARS AGO SOCIETE GENERALE WOULD HAVE BEEN VERY INTERESTED IN PARTICIPATING IN CONSORTIUM LOAN FOR PHILLIPS; TODAY THEY WOULD TURN THUMBS DOWN.

2. AT THE PRESENT TIME EXCHANGE CONTROL REGULATIONS EFFECTIVELY PRECLUDE FRENCH BANKS FROM MAKING LOANS TO NON-RESIDENTS OUT OF FRENCH FRANC RESOURCES. WHEN EXTERNAL LENDING OF FRANCS WAS PERMITTED, CREDIT POLICY OF MONETARY AUTHORITIES NATURALLY HAD AN INCIDENCE ON WHAT FRENCH BANKS WERE PREPARED TO DO IN THIS FIELD. THUS, WITH PRESENT TIGHT MONEY CONDITIONS IN FRANCE AND HIGH COST OF REFINANCING AT BANK OF FRANCE, BANKS CERTAINLY WOULD NOT HAVE BEEN INTERESTED IN EXPANDING EXTERNAL LOANS IN FRANCS EVEN IF EXCHANGE CONTROLS HAD BEEN LESS STRINGENT.

3. BECAUSE OF SPECIAL NATURE OF THE BANK'S INTERNATIONAL LENDING ACTIVITIES (ESSENTIALLY RELENDING OF FOREIGN EXCHANGE RESOURCES RAISED ON EURO-CURRENCY MARKET), EQUITY CAPITAL RATIO DOES NOT OPERATE AS IN U.S. TO LIMIT THESE LENDING ACTIVITIES. HOWEVER, RICHARD FEELS THAT ATTITUDE OF BANK OF FRANCE TOWARDS SUCH ACTIVITIES HAS IMPOSED EVEN MORE STRINGENT DISCIPLINE ON FRENCH BANKS. LAST FALL GOVERNOR

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CLAPPIER OF BANK OF FRANCE HAD MEETING WITH HEADS OF PRINCIPAL FRENCH BANKS TO EMPHASIZE TO THEM IMPORTANCE OF HOLDING DOWN COMMITMENTS IN EURO-CURRENCY MARKET AND AVOIDING OVER-EXPOSURE. BANK OF FRANCE REQUIRES BANKS TO MAKE FREQUENT, DETAILED REPORTS ON THEIR FOREIGN OPERATIONS, AND SCRUTINIZES THESE REPORTS VERY CLOSELY.

4. SOCIETE GENERALE USES COUNTRY EXPOSURE LIMITS. TWO YEARS AGO LIMITS WERE FAIRLY FLEXIBLE BUT THEY ARE NOW VERY STRICT. INDEED, THERE ARE SOME COUNTRIES WHERE SOCIETE GENERALE WOULD NOT UNDERTAKE ANY FURTHER OPERATIONS.

5. EXISTENCE OF TAKEOUT FACILITIES, SUCH AS POTENTIAL BORROWING FROM IMF OR OECD SOLIDARITY FUND, IMPROVES STATUS OF PROSPECTIVE BORROWERS "TO A CERTAIN EXTENT." BUT THIS FACTOR WOULD NOT BE DECISIVE IN CHANGING BANK'S ATTITUDE ABOUT ADDITIONAL LENDING TO A COUNTRY FROM NEGATIVE TO POSITIVE.
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6. COUNTRIES ON WHICH SOCIETE GENERALE IS BEARISH FOR 1975 INCLUDE PORTUGAL, ITALY, YUGOSLAVIA, OBVIOUSLY CHILE, ARGENTINA (LONG-TERM OUTLOOK FAVORABLE, BUT POLITICAL UNCERTAINTIES WEIGH HEAVILY ON NEAR-TERM PROSPECTS), MANY AFRICAN COUNTRIES AND BOTH NORTH AND SOUTH KOREA. ARAB SOLIDARITY SHORES UP SOMEWHAT CREDIT STANDING OF NON-OIL EXPORTERS IN MIDDLE EAST, BUT SHOULD NOT BE GIVEN TOO MUCH WEIGHT. MEXICO IS COUNTRY ABOUT WHICH SOCIETE GENERALE HAD SOME DOUBTS, BECAUSE OF HEAVY EXTERNAL DEBT COMMITMENTS, BUT THEY HAVE

RECENTLY RECLASSIFIED MEXICO IN MORE FAVORABLE
CATEGORY.
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